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Arbitration and Mediation

June 3, 2016

Via UPS Next Day

The Honorable Milton I. Shadur
United States District Judge
United States District Court
Northern District of Illinois
Eastern Division
219 South Dearborn Street
Chicago, Illinois 60604

Re: Quarterly Report of Independent Special Counsel, *Perez v. Estate of Frank E. Fitzsimmons, et al.*, No. 78 C 342 (N.D. Ill., E.D.); *Perez v. Robbins, et al.*, No. 78 C 4075 (N.D. Ill., E.D.); and *Perez v. Dorman, et al.*, No. 82 C 7951 (N.D. Ill., E.D.)

Dear Judge Shadur:

This is to report on my activities during the first quarter of 2016 as Independent Special Counsel appointed pursuant to the *Fitzsimmons* (Pension Fund) and *Robbins* and *Dorfman* (Health and Welfare Fund) consent decrees.

Board Composition

As indicated in my report for the fourth quarter of 2015, Mr. William Lichtenwald is presently serving a five-year term as an Employee Trustee of the Central States Funds that commenced on April 1, 2015 (following this Court's approval of his service as a Trustee, pursuant to the consent decrees, on March 3, 2015). However, Mr. Lichtenwald has announced his intent to resign from his Employee Trustee position, but he has also indicated that he is willing to continue to serve as a Trustee until a successor can be elected, appointed and approved by this Court. The Funds' Staff, as directed by the Trustees, has been engaged in conducting an election and related procedures in order to fill Mr. Lichtenwald's position, in accordance with the Funds' Statement of the Procedures for Selection and Monitoring of Employee Trustees. It is anticipated that the

Funds' Staff will soon be able to file motions with the Court seeking approval of an appropriate individual to serve the remainder of Mr. Lichtenwald's term as an Employee Trustee.

Pension Fund

PPA-Related Issues

As explained in previous reports, the multiemployer plan funding rules of the Pension Protection Act of 2006 ("PPA") became effective on January 1, 2008. On March 24, 2008, the Fund's actuary certified the Fund to be in "critical status" under the PPA for the 2008 plan year; the actuary has made the same certification with respect to subsequent plan years, except that in March 2015, the actuary certified the Fund to be in the new category of "critical and declining" created by the Multiemployer Pension Reform Act of 2014 (discussed below). As a result of the initial critical status certification, the Trustees adopted a "rehabilitation plan" as the PPA requires for critical status plans. In broad outline, the Rehabilitation Plan approved by the Trustees contains a "Primary Schedule," which requires each contributing employer to agree to five years of 8% annual contribution increases (7% if the increases began in 2006) in order to maintain current benefit levels for the affected bargaining unit. The PPA also requires that a rehabilitation plan contain a "Default Schedule" which must provide for the reduction in what the PPA terms "adjustable benefits"; the Fund's Rehabilitation Plan mandates 4% annual contribution rate increases with respect to the Default Schedule. ("Adjustable benefits" under the PPA generally include all benefits other than a contribution-based retirement benefits payable at age 65.) The PPA also provides that if the bargaining parties have not chosen any of the schedules established by a rehabilitation plan (*i.e.*, the Primary or Default Schedule) within 180 days following the expiration of the parties' last labor agreement, the Default Schedule will be imposed as a matter of law. In addition, the Rehabilitation Plan provides that that the members of bargaining units who agree to a withdrawal from the Pension Fund (or otherwise acquiesce or participate in a withdrawal -- an event termed a "Rehabilitation Plan Withdrawal") -- also incur a loss of their adjustable benefits.

As also explained in my previous reports, the PPA also requires the Trustees to engage in an annual process of considering whether it is appropriate to update the Rehabilitation Plan in any fashion. Last December during the 2015 Rehabilitation Plan update process the Trustees noted that because the Fund is facing an insolvency (most recently projected to occur in 2025) the PPA required that they take "reasonable measures" to forestall the insolvency. ERISA §305(e)(3)(A)(ii). The Trustees also concluded that the application that the Trustees approved for filing with the U.S. Department of Treasury on September 25, 2015 pursuant to the Multiemployer Pension Reform Act (MPRA) was a reasonable measure designed to forestall the projected insolvency (*See* pp. 4-5 below), and therefore one that the Trustees were *required* to take under the PPA. However, during the 2015 Rehabilitation Plan process the Trustees also concluded that any further or additional benefit reductions or the imposition of additional requirements for increased contributions (*i.e.*, beyond filing the 2015 MPRA application and those measures previously implemented and set forth in Rehabilitation Plan) would entail too great a risk of irreparable harm to a large number of contributing employers, or would otherwise risk prompting an undue and harmful number of withdrawals from the Fund.

However, in the 2015 Rehabilitation Plan update process, the Trustees approved continued implementation of (i) the Distressed Employer Schedule (which the Trustees believe accommodated the special circumstances presented by YRC, Inc. in a manner that was actuarially favorable to the Fund; *see* p. 14 - 15 below), (ii) the hybrid withdrawal liability method (pp. 13 - 14 below), and (iii) the benefit modifications, contribution rate increases and other features of the Rehabilitation Plan that have been previously adopted (*e.g.*, the Trustees raised the minimum retirement age to 57, effective as of June 1, 2011).

Although it appears the Pension Fund has reported some progress in securing increased employer contributions and in adjusting benefits as required of "critical and declining status" plans under the PPA, the Fund suffered serious investment losses in the general stock market and economic downturn that commenced in 2008 (and before that, in the 2002 - 2003 market decline). In more recent years, the Fund has enjoyed significant investment gains. For example, the Fund enjoyed a composite rate of return of 19.04% for calendar year 2013, and a rate of return of 6.86% for calendar year 2014. However, 2015 proved to be a more difficult year for investors and the asset level as of March 31, 2016 of approximately $15.8 billion is still several billion dollars below the value of assets held by the Fund shortly before the commencement of the 2008 stock market collapse. But the Fund's Staff reports that the downward pressure on the Fund's assets is largely due to the Fund's current annual operating deficit of more than $2 billion per year -- meaning that in recent years the Fund has paid out more than $2 billion each year *more* in benefits than it has collected in contributions from employers.

In addition, as indicated in my prior reports, the Pension Fund's Staff has reported that due to the global downturn in investment markets during 2008, as of January 1, 2009, the Pension Fund was unable to satisfy the funding improvement targets that are a condition of the amortization extension granted to the Fund by the IRS in 2005. The consequence of an unexcused failure to satisfy the funding target conditions of the amortization extension could be the imposition of potentially crippling excise taxes upon the Fund's contributing employers. However, Staff has also reported that in early 2009 the Pension Fund filed an application with the IRS requesting a waiver of the funding targets.

Staff now advises that on April 28, 2016, the IRS approved a modification of the amortization extension. Staff advises that under this modification there will be no retroactive funding deficiency for years prior to 2009 as a result of any failure of the Fund to satisfy the funding target conditions for 2009 and subsequent years. Staff also advises that under the modified extension the Fund's employers will not be exposed to excise taxes as long as the Fund has a PPA rehabilitation plan in place and is complying with it.

Funding Issues Confronting Multiemployer Plans

As previously reported, the PBGC's 2014 Annual Report, released in September 2015, indicates that (due largely to recent increases in the premiums multiemployer plans are required to pay to the PBGC) there has been a slight improvement in the financial condition of the agency's multiemployer plan guaranty fund -- which is now projected to become insolvent in 2025 as compared to the 2022 insolvency that was projected in the prior (fiscal year 2013) PBGC annual report. This means that the PBGC will have no financial resources to pay benefits to the Pension Fund participants if, as projected, the Fund also becomes insolvent at approximately the same time as the PBGC.

Multiemployer Pension Reform Act of 2014

As was also indicated in my prior reports, it appears that in response to the funding issues impacting the PBGC and a number of multiemployer plans throughout the United States, in December 2014 the Multiemployer Pension Reform Act of 2014 ("MPRA" or the "Act") was enacted. MPRA provides "critical and declining" multiemployer plans -- such as the Pension Fund -- with the option of requesting approval for a plan of benefit suspensions from the U.S. Department of Treasury. Any such suspension plan would (a) be required to avoid the Fund's projected insolvency, but (b) may not contain benefit suspensions that are materially greater than those required to avoid the insolvency.

My prior reports also noted that on September 25, 2015, the Pension Fund filed an application under MPRA with the U.S. Department of the Treasury requesting approval of a plan of benefit suspensions. That suspension plan and the general requirements of MPRA relating to suspension plan were described in prior reports.

On May 6, 2016 the Fund's application and proposed suspension plan was rejected by Treasury. Treasury's letter rejecting the Fund's suspension plan expressed the following rationale as the basis for its decision:

1. The Fund used a "significantly optimistic" rate of investment return assumption (7.5% per year) in the projections designed to show that the proposed suspension plan satisfied the statutory standard and enabled the Fund to avoid insolvency for an "extended period" (30 years or more). Treasury indicated that the Fund should have used a lower rate of return assumption for at least the initial 10 years of operation under the suspension plan.

2. The Fund's proposed suspension plan did not "equitably distribute" the benefit suspensions in that the plan should have placed *all* the benefits earned by participants with UPS, Inc. in a special category, or "tier," that is subject to certain statutory protections. The Fund's proposed plan had placed only UPS benefits earned by participants whose pre-age 65 benefits were transferred to a UPS pension plan under a 2007 agreement between UPS and the Fund in the special tier described in Treasury's May 6, 2016 letter.

3. The Fund used an incorrect "entry age" assumption in its projections supporting the suspension plan.

4. The Fund's statutory notice issued to participants concerning the proposed suspension plan was not sufficiently simple and understandable for the participants.

The Pension Fund's Staff advises that immediately after Treasury released its May 6th decision it received a number of inquiries from media outlets asking for a response to Treasury's rationale for denying the application. As a result, the Fund's Staff convened a telephonic press conference on May 9, 2016 in which Staff stated:

1. The Fund's Trustees believe that the proposed suspension plan -- though painful and difficult for all concerned parties -- offered the only realistic means available at this time to permit the Fund to avoid running out of money in about 10 years.

2. Treasury's May 6th decision does not deny that the Fund is in fact headed for insolvency within this time frame; nor has Treasury suggested that, prior to filing their application under MPRA, the Trustees failed to take all reasonable means to protect the Fund and to forestall insolvency.

3. Therefore, the Fund and its Trustees are disappointed in Treasury's decision to deny the Fund's application and the proposed suspension plan.

4. The Fund strongly disagrees with Treasury's claim that the Fund's October 1, 2015 notice concerning the filing of the application was not comprehendible to the Fund's participants. This notice included a cover letter and a two page summary of the proposed suspension plan; these clear and concise communications are not mentioned in the Treasury's May 6, 2016 letter. Moreover, the Fund surveyed its participants and fully 76% of the respondents said that the Fund's notice and related correspondence were "clear and easy to understand". The Pension Fund also noted that during the Fund's meetings with key Treasury staff held after the mailing of the notices on October 1, 2016, Treasury gave no indication that the notices were defective in any way.

5. With regard to Treasury's claim that the Pension Fund's proposed suspension plan used a "significantly optimistic" rate of investment return assumption (*i.e.,* 7.5% per year), Staff explained that (1)the Fund's average rate of return over the last 35 years has in fact *exceeded* 7.5% per year by a wide margin, (b) a lower rate of return assumption would have required a suspension plan that called for larger benefit suspensions and (c) because Treasury did not publish its final regulation concerning the rate of return assumptions until 10 days before its May 6, 2016 ruling on the Fund's application, the Fund had no realistic opportunity to attempt to comply with the new requirements of that regulation.

6. The Treasury comment concerning the Fund's "entry age" assumption is misplaced. Even if Treasury's criticism of the entry age assumption could be justified, that assumption would

have no material impact on either the solvency projection or the scope of benefit suspensions called for under the Fund's proposed plan.

7. Treasury's May 6, 2016 letter states that the Fund failed to "equitably distribute" the suspensions called for under the proposed plan, but the only example of an "inequitable" distribution cited by Treasury relates to the treatment of certain UPS participants under the plan. The Fund disagrees with the Treasury's interpretation of the statute, but more importantly the Fund contends that this issue has a very limited impact on a relatively small number of UPS participants, and would not materially impact the vast majority of participants. Treasury's May 6, 2016 letter presents no claim or evidence to the contrary.

In a Board Meeting held on May 10, 2016, the Trustees received analysis and advice from Staff, from actuarial consultants (Segal Consulting), and from outside legal counsel (the Groom Law Group) concerning practical, financial and legal issues relating to the possibility of filing a new application and a new proposed suspension plan. During the May 10 Meeting, Segal Consulting advised the Trustees (as it has in the past) that prompt implementation would be essential to any suspension plan; that is, no level of benefit suspensions would have the ability to avoid the projected insolvency if the suspensions are not implemented sufficiently in advance of the projected insolvency date. Segal also advised the Trustees that any new suspension plan proposed by the Trustees must meet the following requirements in order to satisfy the MPRA rule concerning the avoidance of insolvency:

1. Given(a) the requirements stated in Treasury's May 6, 2016 letter and Treasury's recently published final regulations (including Treasury's views concerning investment return assumptions), and (b) the time that has elapsed since the Fund filed its MPRA application on September 25, 2015, a new proposed suspension plan must reduce *all* participants not subject to an express statutory protection or limitation on benefit suspensions to the maximum extent permitted by MPRA, *i.e., all* participants not in a classification protected by MPRA must be reduced to 110% of the PBGC guaranteed amount. [The classifications absolutely protected from suspensions under MPRA are retired participants at age 80 and older, and those receiving a disability-based pension; there are also statutory limits on suspensions for participants between the ages of 75 and 79. For a participant with 30 years of service

the maximum PBGC guarantee is $1,072.50 per month or $12,870 per year.]; and

2. any new proposed suspension plan must be implemented *by September 1, 2016.*

At the May 10 Trustee Meeting Fund's Staff and the Groom Law group made presentations concerning the practical and legal challenges the Fund would encounter in:

1. Preparing a new application requesting approval of a new proposed plan with maximum benefit suspensions for all participants and securing Treasury approval of an implementation date of *September 1, 2016 (or earlier) for such a plan;* and

2. pursuing a legal action to seek reversal of Treasury's decision to deny the Fund's initial application.

After consideration of the actuarial, legal and practical considerations referenced above, the Trustees concluded that:

1. It is not possible to prepare and to submit a new application and a new suspension plan to Treasury that could be *approved and implemented by September 1, 2016;* therefore, the Pension Fund will not file a new application or a new proposed suspension plan.

2. A legal challenge to Treasury's May 6, 2016 decision would be wasteful and will not be pursued.

3. The Fund should continue to cooperate with members of Congress, regulatory agencies, and interested labor unions, employers, private parties and organizations in a search for a solution to multiemployer pension plan funding problems.

Campbell Litigation

As the Court is aware, on April 25, 2016 Doris Campbell and several other participants in the Pension Fund filed an action alleging breach of fiduciary duty against the Fund and its Trustees. *Campbell v. Whobrey*, No. 16-CV-04631 (U.S. Dist. N.D. Ill.). The *Campbell* plaintiffs are all present or former employees of The Kroger Co. ("Kroger"), a significant contributing employer to the Fund. The *Campbell* complaint alleges that the Pension Fund defendants acted imprudently in rejecting a proposal that Kroger had made to the

Pension Fund concerning the timing of Kroger's planned withdrawal from the Fund and the resolution of the company's resulting withdrawal liability.

The *Campbell* case was assigned to Judge James Zagel, but on May 3, 2016, the Pension Fund defendants filed a motion with this Court requesting reassignment of *Campbell* as a case related to the Pension Fund consent decree case (No. 78 C 342). On May 6, 2016, this Court denied the reassignment motion for the reasons stated in open court,

The *Campbell* plaintiffs have filed a motion for a preliminary injunction requesting, along with other relief, the appointment of an independent fiduciary to consider the Kroger proposal relating to that company's planned withdrawal from the Pension Fund, and presumably to negotiate with Kroger on behalf of the Fund concerning the terms of Kroger's planned withdrawal. That motion is being briefed before Judge Zagel, who has set a hearing date of July 7, 2016 for the preliminary injunction motion.

The Pension Fund contends that the *Campbell* complaint is baseless and that the action is being controlled by Kroger in an effort to gain leverage in its negotiations with the Fund. In any event, the Fund's Staff reports that it is proceeding to provide actuarial data to Kroger that the company has requested as a prelude to further discussions between the parties.

Financial Information - Investment Returns

The Pension Fund's investment return for the first quarter of 2016 was 1.49%. [1]

[1] As required under the consent decree, 50% of the Pension Fund's investments are held in passive or indexed accounts and 50% of the investments are subject to active management under the control of Northern Trust Investments, Inc. ("Northern Trust") as the Fund's court-appointed Named Fiduciary. However, the Named Fiduciary is also responsible for setting the Pension Fund's overall asset allocation, and in doing so it must take account of the mandatory allocation of 50% of the Fund's assets to passive or indexed accounts as directed under the consent decree - an allocation that includes, for example, an indexed or passive bond / fixed income account that comprises 20% of the Fund's total assets. Therefore, the Pension Fund's Composite Returns presented below reflect the combined returns of the passive / indexed portion of the Fund's total investment portfolio and the portion under active management controlled by the Named Fiduciary. On the other hand, Northern Trust's returns, as presented below, reflect

A comparison of the Pension Fund's performance to the TUCS [2] universe results published for the first quarter of 2015(showing percent returns on investment) is summarized in the following tables:

Pension Fund's Composite Return

	1st Quarter Ended Mar. 31, 2016	One Year Period Ended Mar. 31, 2016	Three Year Period Ended Mar. 31, 2016
TUCS 1st Quartile	1.91	0.41	7.06
TUCS Median	1.30	(0.55)	6.32
TUCS 3rd Quartile	0.87	(1.51)	5.51
Fund's Composite Return	1.49	(1.54)	6.42

Pension Fund's Total Equity Return

	1st Quarter Ended Mar. 31, 2016	One Year Period Ended Mar. 31, 2016	Three Year Period Ended Mar. 31, 2016
TUCS 1st Quartile	0.75	(2.18)	10.00
TUCS Median	0.38	(3.24)	8.50
TUCS 3rd Quartile	(1.11)	(4.63)	6.77
Fund's Total Equity Return	(0.32)	(2.97)	8.50

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only the performance of the assets under the control of Northern Trust as Named Fiduciary. However, Northern Trust's separately stated returns can be influenced at times by the asset allocations that it feels constrained to make within its own actively managed portfolio in light of the allocations required under consent decree in the passive / indexed portion of the Fund's portfolio.

[2] "TUCS" is the Trust Universe Comparison Service. Its Custom Large Funds Universe is composed of plans with assets exceeding $3 billion.

Pension Fund's Fixed Income Return

	1st Quarter Ended Mar. 31, 2016	One Year Period Ended Mar. 31, 2016	Three Year Period Ended Mar. 31, 2016
TUCS 1st Quartile	5.33	1.63	4.64
TUCS Median	3.26	0.80	2.91
TUCS 3rd Quartile	2.49	0.43	2.12
Fund's Fixed Income Return	3.51	(0.04)	1.36

The Fund's Named Fiduciary, Northern Trust Investments, Inc. ("Northern Trust") [3], which has been allocated 50% of the Fund's investment assets) submits monthly investment reports to the Trustees, summarized below (showing percent returns on investment):

Northern Trust

	Year-to-Date as of Mar. 31, 2016	Jan. 2016	Feb. 2016	Mar. 2016
Northern Trust's Composite Return	1.12	(4.89)	(0.19)	6.53
Benchmark Composite Return	2.16	(4.43)	0.11	6.79
Northern Trust's Total Fixed Income Return	4.09	(0.69)	0.74	4.05
Benchmark Fixed Income Return	4.06	(0.52)	0.73	3.85

Northern Trust's first quarter 2016 composite return included a (0.91)% return on U.S. equities ((1.37)% on large cap, 0.39% on mid cap and (2.20)% on small cap U.S. equities), (1.05)% on international equities, 3.79% on real estate and 8.69% on global listed infrastructure).

[3] Formerly known as Northern Trust Company of Connecticut, which was in turn formally known as Northern Trust Global Advisors, Inc.

The Fund's financial group reported the following asset allocation of the Pension Fund as a whole as of March 31, 2016 as follows: 61% equity, 34% fixed income, 4% other and 1% cash.

The financial group also reported that for the first quarter of 2016 the returns on the Fund's passive indexed accounts were as follows (showing percent returns on investment):

Account	Rate of Return for 1st Quarter 2016
Passive Indexed Equity (S&P 500) (25% of investment assets)	1.44
Passive Indexed Fixed Income (20% of investment assets)	3.01
Passive EAFE Indexed (5% of investment assets)	(2.93)

Financial Information - Net Assets

(Dollars shown in thousands)

The financial reports prepared by Pension Fund Staff for the three months ended March 31, 2016 (enclosed) show net assets as of that date of $15,811,600, compared to $16,126,208 at December 31, 2015, a decrease of $314,608 compared to a decrease in net assets of $160,135 for the same period in 2015. The $154,473 difference is due to $174,281 less net investment income offset by $19,808 less net operating loss.

The enclosed Fund's Staff report further notes that for the three months ended March 31, 2016, the Fund's net asset decrease from operations (before investment income) was $519,603 compared to a decrease of $539,411 for the same period in 2015, or a $19,808 favorable change. This change in net assets from operations (before investment income) was attributable to:

a) $18,234 more contributions,

b) $824 less benefits and

c) $750 less general and administrative expenses.

During the three months ended March 2016 and 2015, the Fund withdrew $539,303 and $513,625, respectively, from investment assets to fund the cash operating deficit.

Financial Information - Participant Population

The enclosed March 31, 2016 report prepared by Fund Staff further notes that the two month average number of Full-Time Equivalent ("FTE") memberships decreased 1.43% from February 2015 to February 2016 (going from 58,993 to 58,149). During that period, the average number of retirees decreased 1.31% (from 207,818 to 205,101).

Named Fiduciary

Officers of the Named Fiduciary, Northern Trust, met with the Board of Trustees to discuss portfolio matters including asset allocation.

Hybrid Withdrawal Liability Method

As indicated in my prior reports, in July 2011 the Trustees adopted -- subject to approval by the Pension Benefit Guaranty Corporation ("PBGC") -- an alternative withdrawal liability method.[4] Under this method, new employers joining the Pension Fund will have their withdrawal liability measured based upon the "direct attribution" method; employers who already participate in the Fund can also be treated as new employers for withdrawal liability purposes on a prospective basis (and become eligible for the "direct attribution" method) by satisfying their existing withdrawal liability under the method historically employed by the Pension Fund (*i.e.*, the "modified presumptive method"), and then agreeing to continue to contribute to the Fund. This recently formula is referred to as a "hybrid" withdrawal liability method.

Staff reports that it believes the hybrid method offers a means for employers who are concerned about the potential for future growth in their exposure to withdrawal liability to cap their liability at its present level while continuing to participate in the Fund with little or no risk of withdrawal liability in the future.

Further, as explained in my prior reports, in November 2012, the Trustees restructured the Primary Schedule of the Rehabilitation Plan so that employers who satisfy their withdrawal liability qualify as

[4] The Pension Fund's Staff advises that on October 14, 2011, the PBGC approved the Pension Fund's use of the hybrid method.

New Employers under the hybrid method and continue to contribute to the Pension Fund will not be subject to the rate increase rate requirements to which other Primary Schedule Employers are subject. The Trustees have also approved an amendment intended to help ensure that New Employers who satisfy their existing withdrawal liability and continue to contribute to the Fund under the hybrid method will not face increased risks in the event of a mass withdrawal, as compared to employers who have simply withdrawn from the Fund and completely discontinued pension contributions.

Staff reports that to date approximately 83 old employers have satisfied their existing liability and qualified as new employers under the hybrid plan, or have made commitments in principle to do so. This has resulted in the payment of (or commitments to pay, subject to the execution of formal settlement documents) approximately $272 million in withdrawal liability to the Pension Fund while the employers in question also continue to contribute to the Fund pursuant to their collective bargaining agreements at guaranteed participation levels.

Bankruptcies and Litigation

The Fund's Staff also reports that Allied Systems Holdings, Inc. and its affiliates ("Allied") -- an automobile transporter with several hundred participants in the Funds -- filed for Chapter 11 bankruptcy protection in mid-2012. However, Allied continued to operate in bankruptcy and to pay contributions to the Funds on behalf of its drivers. Staff reports that in December 2013 Jack Cooper, Inc., another unionized automobile transporter, purchased the assets of Allied in the bankruptcy and will continue to contribute to the Funds with respect to the purchased assets and operations, but without an assumption or Jack Coopers' withdrawal liability. Allied's withdrawal liability (in the amount of $976 million) was triggered by the sale and Staff advises that the Allied bankrupt estate is not likely to have assets sufficient to satisfy this assessment. However, as noted, Jack Cooper should be able to continue the income stream to the Funds represented by the contributions historically paid by Allied.

YRC

As also previously reported, in May 2009 the Funds entered a Contribution Deferral Agreement ("CDA" or "Deferral Agreement") with YRC, Inc. and its affiliates ("YRC") -- one of the largest contributing employers to the Fund. Under the Deferral Agreement, the Pension Fund ultimately agreed to defer approximately $109 million in pension contributions. The Fund's financial consultant indicated that absent deferral of these contribution obligations, YRC would be in default of loan covenants with its banks; Staff reported that such a default would risk triggering an insolvency and liquidation of YRC, which would destroy any chance of rehabilitating the employer as a healthy contributor to the Funds.

Some 25 other multiemployer pension plans in which YRC participates joined in the Deferral Agreement, but the Pension Fund is owed approximately 64% of the contributions deferred under the Agreement.

Following a temporary termination of YRC's participation in the Pension Fund (due to its chronic delinquencies), on September 24, 2010, the Teamsters National Freight Negotiating Committee and YRC executed an Agreement for the restructuring of the YRC Worldwide, Inc. Operating Companies ("Restructuring Agreement"), which further revised YRC's pension contribution obligations. Under this Agreement YRC was scheduled to resume contributions to the Pension Fund in June 2011 at a rate constituting a 75% reduction from its pre-termination (pre-July 2009) rate.

In March 2011 the Trustees approved an arrangement under which the CDA repayment obligations are to be deferred until March 31, 2015 (when a lump sum payment of the entire CDA balance was scheduled to be made), with the exception of monthly interest payments to commence in June 2011.

At the March 9, 2011 Board Meeting, the Fund's Trustees also determined, in light of the company's continuing financial distress, that it was appropriate to accept contributions at the new contribution rate proposed under the YRC/TNFNC September 24, 2010 Restructuring Agreement (25% of the rate required prior to the July 2009 termination).

At the same time, the Trustees decided that the YRC employee unit should receive reduced benefits equivalent in most respects to the Default Schedule under the Fund's Rehabilitation Plan. (This is termed the "Distressed Employer" schedule of benefits.)

In January 2014, after consultation with financial, actuarial and legal advisors, the Trustees voted to approve a revised CDA extending the balloon payment under the CDA from 2015 to 2019. The other Teamster Pension Funds who participated in the CDA also agreed to these terms and an amended CDA was executed on January 31, 2014.

Staff also reports that since July 2011, YRC has remained current in its pension contribution payments ($3-$4 million per month), and in the monthly interest payments (beginning in August 2011) of approximately $500,000. In addition, on November 12, 2013 the interest rate under the CDA escalated from 7.5% per year to 7.75%.

In addition, Staff has reported that to date the Pension Fund has received approximately $48.4 million as its share of the net proceeds from sales of collateralized assets as a pre-payment under the CDA. Staff reports that after accounting for all principal and interest payments made to date, the unpaid balance owed to the Pension Fund under the CDA by YRC is approximately 70.1 million. Staff also notes that in May 2012 the Fund received a payment of approximately $110,000 under the CDA which is expressly denominated as a fee calculated under that Agreement as a match of a portion of a refinancing charge paid by YRC to its commercial lenders (and not applicable to reduce YRC's principal or interest balance); on November 12, 2013 the Fund received approximately $419,000 as another such refinancing fee match.

Hostess Brands, Inc.

In August 2011, Hostess Brands, Inc. ("Hostess") -- an employer that had regularly contributed to the Pension Fund on behalf of approximately 2,800 participants -- failed to make the monthly pension contribution payment of approximately $1.9 million that was due on August 15, 2011.

Hostess's pension contribution delinquency persisted and at the November 2011 Board Meeting the Trustees voted to terminate the participation of Hostess in the Pension Fund and to generally reduce the benefits of the Hostess participants to the Default Schedule levels specified under the Rehabilitation Plan (*see* pp. 5 - 6 above).

On January 11, 2012, Hostess filed a petition under Chapter 11 of the Bankruptcy Code in the Southern District of New York. The Pension Fund has delinquent contribution claims in the amount of approximately $8 million against the bankrupt estate, as well as withdrawal liability claim in the amount of approximately $583 million.

As previously reported, Staff indicates the efforts to reorganize Hostess were unsuccessful and it appears that proceeds from the Hostess liquidation may not be sufficient to satisfy the company's secured debt, and this, of course, would leave the Pension

Fund and other general unsecured and non-administrative priority creditors with unsatisfied claims (the Pension Fund has no administrative claims in the Hostess Bankruptcy).

Health and Welfare Fund

Department of Labor Review

On February 2, 2016 the Chicago office of the U.S. Department of Labor (the "Department") commenced an onsite review of various Health and Welfare Fund documents that the Department requested pursuant to its general authority under ERISA § 504, 29 U.S.C. §1134. The Health and Welfare Fund's Staff advises that this is a fairly standard review, and has apparently not been prompted by any specific concerns by the Department of Labor about the Fund's compliance with ERISA and other legal requirements.

The Department of Labor's review has focused on the operations of the Active Health and Welfare Plan, and the documents requested by the Department include Trust Agreements, Plan Documents, Summary Plan Descriptions, Evidence of Coverage, Enrollment Packages, Summaries of Benefits and Coverage, contracts with service providers and Form 5500 Annual Reports.

Following their onsite inspection of documents at the Fund's offices during the week of February 2, 2016, the Department of Labor personnel involved in this review asked the Fund to provide various data and files relating to claims processing. The Fund's Staff reports that all requested files and data have been provided to the Department of Labor, and that these materials are currently being reviewed by the Department.

Financial Information

(Dollars shown in thousands)

The Health and Welfare Fund's financial summary for the three months ended March 31, 2016 are compared below with financial information for the same period of 2015:

	Three Months Ended March 31, 2016	2015
Contributions	$ 775,355	691,140
Recognized portion of UPS lump sum	21,453	24,528
Benefits	648,410	571,715
TeamCare administrative expenses	19,150	17,065
General and administrative expenses	17,732	15,181
Net operating income	111,516	111,707
Investment income (loss)	67,617	24,835
Increase in net assets	179,133	136,542
Net assets, end of period	4,570,712	3,956,283
Two-month average Participants (FTEs)	190,662	173,728

For the three months ended March 31, 2016, the Health and Welfare Fund's net asset increase from operations (before investment income) was $111,516 compared to an increase of $111,707 for the same period in 2015, or a $191 unfavorable change:

(a) $81,140 more contributions due to increases in FTEs (UPS and American Red Cross),

(b) ($76,695) more benefits, primarily due to UPS,

(c) ($2,085) more TeamCare administrative fees and

(d) ($2,551) more general and administrative expenses.

During the three months ended March 2016 and 2015, the Fund transferred $125,770 and $81,111, respectively, to investments (BNY Mellon) as the operations generated positive cash flows for those periods.

The enclosed report also notes that the two-month average number of Full-Time Equivalent (FTE) memberships increased by 9.75% from February 2015 to February 2016 (going from 173,728 to 190,662).

During that period, the average number of retirees covered by the Health and Welfare Fund increased by 7.33% (from 8,242 to 8,846).

Article V (H)

As required by Article V (H) of the Health and Welfare Fund Consent Decree, the Health and Welfare Fund has paid during the first quarter of 2016 the following for professional services and expenses for the Independent Special Counsel:

March	$ 3,864.35

I will be glad to provide additional details regarding any aspect of my activities as Independent Special Counsel. Should you have any questions or comments, please do not hesitate to contact me.

Sincerely,

David H. Coar

David H. Coar

Enclosure

cc: Ms. M. Patricia Smith (w/encl.) **Via UPS Next Day**
Mr. Wayne Berry (w/encl.) **Via UPS Next Day**
Mr. Thomas C. Nyhan